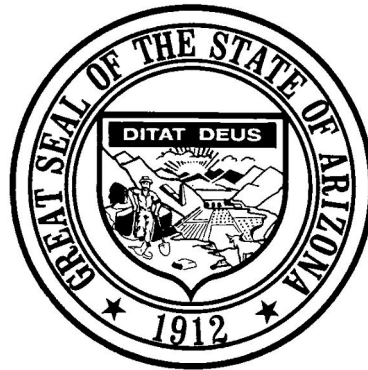


**JANICE K. BREWER
GOVERNOR**

**SCOTT A. SMITH
DIRECTOR**

**ARIZONA DEPARTMENT OF ADMINISTRATION
RISK MANAGEMENT DIVISION**



FISCAL YEAR 2011 ANNUAL REPORT

RESPONSIBILITIES/STATUTES

The Fiscal Year 2011 Annual Report, as required by A.R.S. §41-623, summarizes liability, property, and workers' compensation expenditures, and provides information on loss prevention efforts and overall achievements of the Risk Management Division during the fiscal year.

The Risk Management Division was established in 1976, and is tasked with the management and mitigation of liability, property, and workers' compensation claims. Statutes found in A.R.S. §41-621 et seq., and administrative rules found in A.A.C.- R2-10-101 through R2-10-601, outline the parameters of the program, including coverage for agencies, employees, boards and commissions. The Risk Management Division provides consultations with state agency personnel to recommend programs and procedures aimed at reducing or eliminating risk. On an annual basis, Risk Management performs a comprehensive evaluation of its insurance program to determine the proper mix of purchased commercial insurance and risk retention.

Funding for Risk Management programs is provided from the Risk Management Revolving Fund. Revenues into the fund are generated as follows:

- An actuarial projection is developed for property, liability, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums and attorney general defense. The total is then allocated and invoiced to agencies based on a formula that assesses risk exposure as well as historical losses.
- An actuarial projection is also developed for workers' compensation time loss, medical, outside counsel and allocated loss adjustment expenditures. In addition, estimates are prepared for costs of administration, insurance premiums, and attorney general defense. The total is then allocated to agencies based on an allocation method from the National Council on Compensation Insurance (NCCI). The NCCI method calculates a rate per payroll using employee classifications modified by the agency's historical losses.

ACHIEVEMENTS AND GROWTH

Fiscal Year 2011 marked a year of significant achievements and continued growth.

Risk Management contracted with a bill review and retro-utilization company for its Workers' Compensation Program. The contract allows the state's injured workers continued coverage for appropriate medical care, while realizing an annual savings potential of approximately \$600,000. The Workers' Compensation Section will have real-time electronic access to historical, current, and pending bill information as well as immediate access to treatment and disability guidelines. Through this program, a prescription benefit was added at no cost to the state.

The Workers' Compensation Section implemented Phase I of the Document Management System (DMS) and will begin Phase II in Fiscal Year 2012. The Document Management System creates a paperless claims adjusting process to improve efficiency, work flow, data integrity, security and response time.

Risk Management fulfilled its mandatory federal reporting requirement for Section 111 of the Medicare, Medicaid, and SCHIP Extension Act (MMSEA) of 2007. Section 111 requires all insurance companies (including self-insured entities) to report quarterly to the Center for Medicare Services (CMS) on injury information for claimants who are Medicare beneficiaries.

The Property and Liability Section implemented enhancements to the Document Management System (DMS) and streamlined its internal processes and procedures to increase efficiencies, eliminate unnecessary storage, and improve security and service delivery:

- *Identified approximately 3,700 documents per year that no longer need to be uploaded and stored on the server*
- *Created Sub-DMS Data Collections to preserve documents that need to be retained beyond the destruction date of the claim file. Therefore, reducing the need to extend the retention date of closed claim files and avoiding the need to store millions of documents longer than required. These documents include legislative reports, agency responses, and annuities.*

The Property and Liability Section met with the Departments of Economic Security, Transportation, Game and Fish, Public Safety, Public Safety Personnel Retirement System, and Veterans' Services to discuss claim services and opportunities for process improvements. Efforts continue for building stronger relationships with agency representatives in order to better understand their needs and provide high-quality service delivery.

Claims adjusters from the Property and Liability Section attended a large property loss seminar and implemented recommended cross-training to address multiple loss exposure types.

The Loss Prevention Section continued to utilize aggressive negotiation strategies to reduce excess insurance expenses by over a million dollars. The renewal savings for the state's excess liability program alone was \$999,924.

The Loss Prevention Section conducted four separate Risk Insurance training sessions with a total of sixty-seven attendees completing the curriculum. Each session consisted of four separate components including practice workshops, totaling approximately fourteen to sixteen hours of training. The training materials included risk terminology, risk identification, risk management alternatives, and contract compliance. In addition to classroom training, an e-learning alternative was implemented to reduce participants' travel expenses.

The Loss Prevention Section is assisting the three state universities in securing cyber risk insurance coverage.

Loss Prevention evaluated the potential exposure from the Defense Base Act as it applies to universities and certain agencies for state employees working on federal contracts in foreign countries.

The Loss Prevention Section completed a risk exposure survey to update exposure data from all agencies, boards, commissions and universities. The information is used to develop accurate data for Risk Management's premium allocation process and to facilitate the underwriting process for purchasing excess insurance.

The Loss Prevention Section conducted hundreds of individual agency interactions to provide assistance to shield state assets from contractual risk assumptions.

Loss Prevention implemented a number of improvements and efficiencies to assist state agencies address loss exposures:

- *The Arizona State Employee Drivers Record Application (ASEDRA) continued to review and monitor biweekly over 33,888 state employees who are authorized to operate a vehicle on state business (all major state agencies and all three universities have begun utilization of ASEDRA)*
- *Provided OSHA 30 -hour training for three large agencies: the Arizona Department of Administration, the Arizona Department of Juvenile Corrections, and the Arizona Department of Game and Fish*
- *Completed and submitted, on behalf of the University of Arizona to the Arizona Department of Environmental Quality, the Part B Permit Application for the hazardous waste facility at Page Trowbridge Landfill*
- *Implemented revisions to the Emergency Action Plan (EAP) beginning with the Arizona Department of Administration's (ADOA) occupied buildings and revised the EAP template to be utilized for all ADOA-managed buildings*
- *Developed Computer Based Training (CBT) EAP for floor warden and employee training as part of EAP revisions*

- *Conducted a design review of Fire Alarm System Upgrades/Replacements for buildings on the Capitol Mall*
- *Participated in the reissuance of the Environmental Pollutants Contract and participated in the committee to select contractors*
- *Assisted in the scope of work development of an Arizona Department of Health Services hazardous material disposal contract*
- *Assisted in the development of specifications and evaluation of contractors for the demolition of a former uninhabited facility in Mesa, and worked with the Arizona State Land Department and the City of Mesa to achieve final demolition of this significant liability*
- *Facilitated adjuster training for the four-course Associate in Claims (AIC) certification*
- *Facilitated the establishment of four training categories to consolidate training and instructors including Fire Life Safety, Occupational Safety, CPR/AED/First Aid, and Defensive Driving/Van Dynamics*

Risk Management recorded significant savings through numerous claims adjusting subrogation efforts:

- *Environmental claim recoveries: \$311,774*
- *Workers' Compensation third party recoveries: \$938,648*
- *Workers' Compensation credit against future liability: \$682,224*

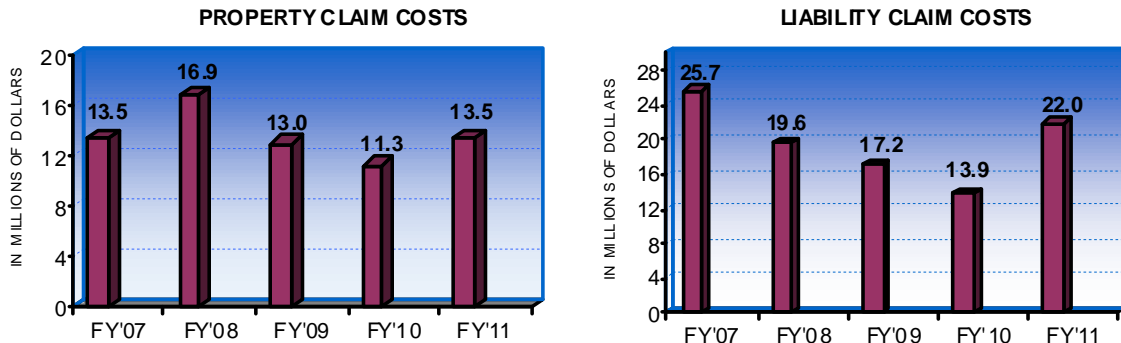
FISCAL YEAR 2011 COSTS AND COMPARISONS

Property expenditures in FY 2011 were \$13.5 million; an increase of \$2.2 million from FY 2010, but \$500,000 less than the five-year average of \$14 million.

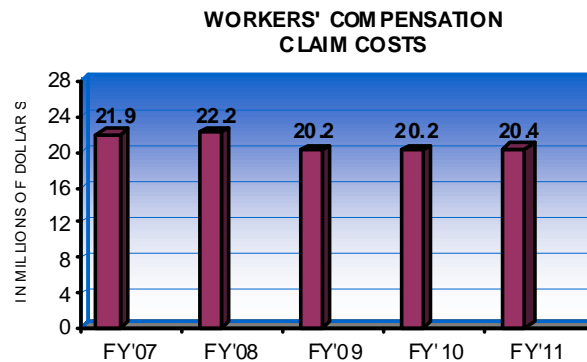
Liability expenditures for FY 2011 were \$22 million - up from \$13.9 million in FY 2010, however, liability expenditures during Fiscal Year 2011 included one extraordinary bodily injury claim in the amount of \$5 million. The five-year average for liability expenditures is \$20 million.

Workers' Compensation expenditures in FY 2011 showed a slight increase over FY 2010.

The following charts depict five-year cost comparisons:



FY'11 includes one extraordinary bodily injury claim of \$5 million



LIABILITY PROGRAM

In the Fiscal Year 2011, there were 2,856 liability claims reported to the Risk Management Division. Total liability claim payments for Fiscal Year 2011, including outside counsel and allocated loss adjustment expenditures, were \$22 million. General liability claims include third party bodily injury and property damage, highway maintenance, and negligence in oversight of state-managed programs. The category of personal liability includes such areas as employment discrimination, defamation, and civil rights violations. Medical malpractice includes errors and omissions by state medical professionals. Automobile liability includes third party claims for injuries and property damage resulting from the use of automobiles by state employees engaged in state business.

General Liability – Bodily Injury claims were the most expensive claims in the liability category, representing 60% of the total cost. Personal Liability was second and represented 20% of the total cost. Medical malpractice payments were \$2,456,000. The following table breaks down the number of claims and amounts paid by loss type:

Loss Type	Frequency	Liability Losses
General Liability – Bodily Injury	357	\$13,198,000
General Liability – Property	1,404	\$795,000
Personal Liability	469	\$4,466,000
Medical Malpractice	37	\$2,456,000
Automobile Liability – Bodily Injury	67	\$776,000
Automobile Liability – Property	522	\$365,000
Total	2,856	\$22,056,000

The following table shows frequency of occurrence and liability losses in Fiscal Year 2011 for the agencies with the largest liability losses:

Agency	Frequency	Liability Losses
Department of Transportation	497	\$4,000,000
Department of Game and Fish	8	\$3,640,000
University of Arizona	124	\$3,075,000
Department of Economic Security	388	\$2,700,000
Department of Corrections	970	\$2,484,000
State Land Department	3	\$1,560,000
Arizona Superior Courts	58	\$1,463,000
Department of Public Safety	280	\$948,000
Sub-Total	2,328	\$19,870,000
All Other Agencies	528	\$2,186,000
Total	2,856	\$22,056,000

PROPERTY PROGRAM

In Fiscal Year 2011, there were 5,659 property claims reported by state agencies. Losses totaled \$13.5 million.

The top two loss categories by frequency of occurrence and severity of payments were real and personal property. Real property covers facilities owned by the state such as office buildings, prison facilities and general infrastructure. Environmental property covers state buildings and state lands that sustain environmental damage. Personal property includes state owned vehicles, furniture, computers and other tangible property.

The following table shows frequency of occurrence and severity of payments for property losses:

Loss Type	Frequency	Property Losses
Real Property	995	\$7,380,000
Environmental Property	9	\$2,782,000
Personal Property	4,652	\$3,338,000
Other	3	0
Total	5,659	\$13,500,000

Frequency of occurrence and property losses in Fiscal Year 2011 for the agencies with the largest property losses are as follows:

Agency	Frequency	Property Losses
Department of Transportation	1,388	\$2,849,000
Arizona State University	395	\$1,767,000
Department of Administration	587	\$1,632,000
State Land Department	2	\$1,432,000
Department of Public Safety	1,255	\$808,000
Northern Arizona University	317	\$758,000
Department of Education	2	\$727,000
Department of Corrections	682	\$656,000
University of Arizona	350	\$583,000
Arizona State Senate	0	\$385,000
Department of Health Services	4	\$310,000
Department of Economic Security	357	\$292,000
Sub-Total	5,339	\$12,199,000
All Other Agencies	320	\$1,301,000
Total	5,659	\$13,500,000

WORKERS' COMPENSATION PROGRAM

The State Workers' Compensation Program provides benefits to state employees injured during the course and scope of their employment. The program pays medical, surgical, lost wages and hospital disability benefits as provided by law under the Arizona Workers' Compensation Act.

The Managed Care Incentive Program provides quality medical care for state employees injured on the job. More than 48 hospitals, 3000 physicians and 12 industrial clinics are available to employees within the network.

The Early Claims Notification System continues to be successful. This system involves early notification of workers' compensation claims by injured state employees or their supervisors. Studies confirm that early notification allows for quicker claims management intervention which translates to cost savings. The 542-WORK phone line, allows injured employees or their supervisors to call in the first report of an industrial injury to the workers' compensation unit 24 hours a day, 7 days a week. During non-business hours, state employees are able to respond to questions regarding their injury via an automated system.

The Early Return to Work with Modified Duty Program continues to prove effective in many state agencies. A disability management specialist works with injured workers, their supervisors and managers to find positions within their agency that allow the injured worker to return to work as soon as possible. Placing an injured worker in these modified duty positions enables the employee to make a smooth and safe transition to their former duties or to a new position that is suitable for them.

In addition to managing the Modified Duty Program, the disability management nurse has helped implement an in-house Utilization Review Program. All medical diagnostic procedures must be reviewed for medical necessity and appropriateness before authorization. This process is typically completed within 24 hours to help ensure recovery of injured employees.

The following table ranks the frequency and severity of payments for workers' compensation claims in Fiscal Year 2011 by agency:

Agency	Frequency	WC Losses
Department of Corrections	964	\$5,914,000
Department of Economic Security	317	\$2,643,000
Department of Transportation	206	\$1,745,000
University of Arizona	308	\$1,678,000
Department of Public Safety	162	\$1,302,000
Arizona State University	257	\$1,200,000
Department of Health Services	141	\$1,054,000
Arizona Superior Courts	151	\$821,000
Department of Juvenile Corrections	102	\$742,000
Northern Arizona University	121	\$534,000
Sub-total	2729	\$17,633,00
All other agencies	452	\$2,746,000
Total	3181	\$20,379,00

LOSS PREVENTION PROGRAM

The Arizona Revised Statutes require each state agency to conduct risk identification and assessment, and implement a loss prevention program to reduce frequency and severity of losses in the following areas:

- Real and personal property protection
- Employee safety in the work environment
- Federal and state standards for industrial hygiene and environmental protection
- Negligent acts that cause harm to third-parties

The primary responsibility of the Loss Prevention Unit is to work with state agencies to reduce or eliminate their exposure to risk. Risk Management Loss Prevention provides professional services in a variety of areas including property, liability, environmental, and worker protection.

Loss Prevention provides professional safety consultants, industrial hygienists and environmental specialists to assist agencies in developing and implementing loss prevention programs. Safety consultants also provide assistance in solving everyday loss prevention problems in the following areas:

- Construction Safety
- Industrial Safety
- Hazard Communication
- Fire Safety
- Fair Safety
- Security
- Course of Construction
- Motor Vehicle Safety
- Emergency Planning
- Site and Hazard Assessment
- Health and Safety Education
- CPR
- Ergonomics

Assistance is provided in risk assessment and corrective action, program development and implementation by means of Assessment, Consultation, and Evaluation (ACE) Reports.

An ACE report is a focused inspection and consultation to assess a particular risk exposure, along with written recommendations for corrective actions. The top three ACE subjects and recommended corrective actions are:

Fire and Security

- Fire Extinguisher Inspection, Maintenance, Service and Training
- Training on Fire Protection Practices
- Wildfire Preventative Actions
- Security Lighting Enhancements
- Fire Door Repair

Safety Inspection

- Guardrail Installation
- Emergency Evacuation Plans (Drills)
- Repair of Emergency Lighting/Exit Signs
- Secure Machinery

Building Indoor Air Quality

- Air Diffuser Cleaning
- General HVAC Maintenance
- Mold Consultation/Testing/Mitigation

OCCUPATIONAL HEALTH SERVICES

Occupational Health Services is responsible for the post-offer physical examinations of potential state employees whose jobs put them at risk of occupational illness or injury. Occupational Health Services schedules, evaluates, and pays for these examinations for various state agencies.

In Fiscal Year 2011, 1,188 post-offer exams were conducted. The average number of days to process exam findings was less than one day. Processing exam findings measures the turn-around period from the time the staff nurse receives the prospective state employee's medical information until the agency is notified of the candidate's status.

The total cost for Occupational Health Services exams in Fiscal Year 2011 was \$162,981.